

## OUTSTANDING LOANS OF FEDERAL LAND BANKS

## LETTER

FROM

## THE SECRETARY OF THE TREASURY

TRANSMITTING

IN RESPONSE TO SENATE RESOLUTION NO. 393, CERTAIN INFORMATION REGARDING FEDERAL LAND BANKS, NATIONAL FARM LOAN ASSOCIATIONS, AND JOINT-STOCK LAND BANKS

FEBRUARY 17 (calendar day, FEBRUARY 27), 1931.—Ordered to lie on the table and to be printed

TREASURY DEPARTMENT,  
Washington, February 26, 1931.

The PRESIDENT OF THE SENATE.

SIR: In compliance with Senate Resolution 393, I have the honor to submit for the Federal Farm Loan Board the following information requested regarding Federal land banks, national farm loan associations, and joint-stock land banks. For convenience, each numbered paragraph of the resolution is quoted, preceding the discussion relating to it.

(1) By States, the number and amount of outstanding loans of Federal land banks and, by banks, the total number and amount of such loans—

These data are included in the following table:

*Loans of Federal land banks outstanding December 31, 1930, by banks and by States*

[Compiled from reports to the Federal Farm Loan Board]

Bank and State	Number	Amount <sup>1</sup>	Bank and State	Number	Amount <sup>1</sup>
Springfield:			Baltimore:		
Maine.....	2,704	\$6,148,297.46	Virginia.....	11,675	\$27,345,686.70
New Hampshire.....	494	957,089.82	Maryland.....	1,055	3,910,294.17
Vermont.....	1,325	3,481,779.53	Delaware.....	136	409,749.82
Massachusetts.....	1,556	4,186,949.05	Pennsylvania.....	6,912	16,347,388.14
Rhode Island.....	184	547,684.19	West Virginia.....	4,552	8,081,315.17
Connecticut.....	1,451	4,352,250.57	Porto Rico.....	4,651	12,300,289.65
New York.....	8,268	24,934,455.03	Total.....	28,981	68,394,723.65
New Jersey.....	1,435	5,158,828.33			
Total.....	17,417	49,767,333.98			

<sup>1</sup> Unmatured principal.

*Loans of Federal land banks outstanding December 31, 1930, by banks and by States—Continued*

Bank and State	Number	Amount	Bank and State	Number	Amount
Columbia:			Omaha:		
North Carolina.....	10, 115	\$17, 343, 051.86	Iowa.....	10, 480	\$82, 465, 512.93
South Carolina.....	5, 586	13, 184, 060.84	Nebraska.....	9, 233	47, 902, 089.68
Georgia.....	10, 705	21, 571, 469.89	South Dakota.....	6, 579	30, 853, 475.80
Florida.....	3, 587	6, 141, 568.95	Wyoming.....	2, 265	6, 614, 282.74
Total.....	29, 993	58, 240, 1 <sup>1</sup> 1.54	Total.....	28, 557	167, 835, 361.15
Louisville:			Wichita:		
Tennessee.....	11, 439	24, 317, 761.54	Kansas.....	8, 730	32, 965, 785.68
Kentucky.....	9, 223	24, 629, 297.88	Oklahoma.....	8, 041	21, 201, 465.42
Indiana.....	14, 454	46, 490, 767.98	Colorado.....	8, 972	25, 336, 045.82
Ohio.....	7, 338	26, 212, 599.59	New Mexico.....	4, 965	9, 780, 843.92
Total.....	42, 454	121, 650, 426.99	Total.....	30, 708	89, 284, 140.84
New Orleans:			Houston, Tex.....	57, 200	153, 252, 043.51
Alabama.....	23, 237	37, 934, 209.06	Berkeley:		
Louisiana.....	12, 813	27, 800, 448.06	California.....	7, 866	28, 412, 119.62
Mississippi.....	23, 976	42, 083, 448.30	Utah.....	5, 243	14, 578, 791.08
Total.....	60, 026	107, 818, 105.42	Nevada.....	410	2, 929, 682.14
St. Louis:			Arizona.....	1, 519	5, 790, 787.74
Illinois.....	9, 073	54, 126, 466.76	Total.....	15, 038	51, 711, 380.58
Missouri.....	9, 449	30, 038, 017.33	Spokane:		
Arkansas.....	14, 535	22, 947, 096.60	Idaho.....	6, 955	22, 724, 757.52
Total.....	33, 057	107, 111, 580.69	Montana.....	7, 155	21, 079, 728.36
St. Paul:			Oregon.....	6, 049	18, 912, 867.16
North Dakota.....	8, 981	31, 746, 575.20	Washington.....	12, 167	31, 375, 138.41
Minnesota.....	8, 456	36, 130, 904.57	Total.....	32, 326	94, 092, 491.45
Wisconsin.....	7, 123	26, 444, 670.01	Grand total.....	410, 493	1, 188, 132, 459.70
Michigan.....	10, 176	24, 652, 570.12			
Total.....	34, 736	118, 974, 719.90			

(2) The number and amount of loans made by each bank in the calendar year 1929 and in the calendar year 1930—

These data are included in the following table, which gives also the total number and amount of loans closed by each bank from date of organization to December 31, 1930:

*Loans made by Federal land banks in 1929, 1930, and from date of organization to December 31, 1930*

[Compiled from reports to the Federal Farm Loan Board]

Federal Land Bank of—	1929		1930		Organization to Dec. 31, 1930	
	Number	Amount	Number	Amount	Number	Amount
Springfield.....	1, 010	\$3, 653, 600	746	\$2, 494, 200	21, 619	\$69, 820, 020
Baltimore.....	1, 470	4, 452, 300	687	2, 474, 800	34, 095	92, 025, 884
Columbia.....	1, 797	1, 466, 600	420	861, 600	39, 681	89, 456, 215
Louisville.....	2, 024	6, 190, 400	1, 080	3, 110, 700	49, 972	160, 483, 000
New Orleans.....	2, 119	3, 892, 000	1, 904	3, 554, 500	74, 604	152, 163, 255
St. Louis.....	1, 460	9, 054, 600	696	4, 203, 200	40, 471	140, 527, 575
St. Paul.....	1, 179	4, 771, 000	933	3, 404, 800	46, 861	179, 825, 700
Omaha.....	1, 369	9, 624, 100	1, 256	8, 345, 100	36, 246	228, 314, 290
Wichita.....	1, 088	3, 779, 400	1, 253	4, 737, 600	40, 079	129, 963, 850
Houston.....	2, 898	10, 424, 100	2, 019	8, 488, 500	67, 028	200, 902, 491
Berkeley.....	615	2, 724, 700	400	1, 514, 500	19, 340	74, 986, 000
Spokane.....	1, 103	4, 219, 700	1, 178	4, 482, 000	42, 200	135, 448, 735
Total.....	17, 132	64, 252, 500	12, 572	47, 971, 000	512, 196	1, 653, 917, 015

<sup>1</sup> These amounts differ slightly from those previously published because of a revision reported by this bank subsequent to publication.

(3) The total amount of bonds sold in the calendar year 1929 and the same during the calendar year 1930, and the terms thereof, whether sales were made at or above par and at what rate of interest—

The needs of the banks for new funds during 1929 and 1930 were not heavy and, as a consequence, there was a relatively small volume of bonds issued during those two years. Most of the requirements for funds with which to make loans were met from cash available to the banks in the regular course of their operations. The principal source of such cash consisted of amortization payments on principal and loans paid in full by borrowers, which aggregated approximately \$48,500,000 during 1929 and about \$40,000,000 during 1930. In addition, considerable amounts of cash were received in the sale of real estate and from other sources. Money-market conditions, moreover, have not been favorable to the issuance of long-term bonds and, as a consequence, the financing that has been undertaken has been largely of a short-term nature.

A total of \$18,850,000 of bonds was authorized during 1929. Of this amount, \$6,850,000 were sold on repurchase agreements and subsequently retired. These bonds carried a rate of interest of 4½ per cent and had a maturity of 30 years but were callable in 10 years. Of this total, \$2,900,000 were sold at 99; \$3,500,000 at 99½; \$350,000 at 99¾; while \$100,000 were sold at par. The purchase price in each case, of course, included any accrued interest. A total of \$2,500,000 was authorized principally for the purpose of making sales to national farm loan associations, the associations purchasing the bonds for investment of their reserves in accordance with section 18 of the rules and regulations of the board, and also for the purpose of making miscellaneous over-the-counter sales. Of this total, \$500,000 bore a rate of interest of 4¼ per cent and the balance 4½ per cent. They had a maturity of 30 years but were callable in 10 years. The reports of the banks indicate that of these issues \$1,272,440 have been sold, and that the balance either has been retired or is still on hand. The sales made were very numerous in number, amounting to several hundred transactions a year for some banks, and were made at varying prices and in denominations of \$40 and over. In view of the time required to obtain complete data on the sale prices of all these individual sales, they have been omitted to prevent delay in submitting this report. The balance of the bonds issued in 1929 consisted of an issue of \$9,500,000, dated October 15, which bore a rate 5 per cent and had a maturity of six months but were callable in four. They were sold on a basis that yielded the banks 99.878.

The bonds authorized in 1930 aggregated \$36,300,000. Of this amount \$300,000 were authorized for possible use in connection with a repurchase agreement, but were retired without being sold. In February, 1930, another short-term issue amounting to \$8,750,000, carrying an interest rate of 4½ per cent and maturing in six months but callable in four months, was sold at par. Again, in July, 1930, another issue amounting to \$7,250,000 of 4½ per cent bonds having a maturity of six months but callable in four months, was sold on a basis that yielded the banks 100.49.

The only public offering during either of the two years under consideration was made on November 17, 1930, and consisted of an issue of \$20,000,000, carrying an interest rate of 4½ per cent with a maturity of three years but callable in two years. These bonds were offered

to the public at par plus accrued interest, netting the banks 99¼, and the offering was heavily oversubscribed within a few hours.

(4) What is being done by the Federal Farm Loan Board and the Federal land banks to encourage the organization of national farm-loan associations and the negotiation of loans, and give the attitude, and reasons therefor, toward applications for loans—

It is the policy of the Federal Farm Loan Board and the Federal land banks to encourage the organization of national farm loan associations wherever agricultural communities are not already adequately served by existing associations and in accordance with this policy additional associations are organized from time to time as the need becomes apparent. Whenever an inquiry is received, indicating that the organization of a new association is under consideration, a copy of a circular entitled "How Farmers May Form a National Farm Loan Association," together with an appropriate letter, is mailed to the correspondent, and the Federal land bank operating in that territory is notified in order that it may render assistance if the organization of a new association appears desirable. Of course, the formation of new associations is not encouraged, either by the board or the banks, if there are already one or more associations operating in the territory which the proposed associations would serve. The board and the banks feel that, from the standpoint of efficient operation, management, and service, better results ordinarily are obtained from associations of adequate size operating with a minimum overlapping of territory. In a number of cases there have been consolidations of associations by action of their stockholders and directors, with the approval of the board, the members and loans of one association being transferred to another operating in the same or adjacent territory. In other cases where existing associations have not been able to serve their communities because of an impaired financial condition, the territory of adjacent associations has been extended to include sections formerly served by the impaired associations.

During the first years after the Federal land banks began operations, associations were organized rapidly. By the close of 1926 4,942 charters had been granted, of which 277 had been canceled, leaving 4,665 associations. The needs for additional associations have not been great but since that time charters have been granted as follows: 1927, 15; 1928, 10; 1929, 3; and 1930, 6. A number of charters also have been canceled during these four years, principally in connection with consolidations. The number of associations on December 31, 1930, was 4,656, distributed over the agricultural regions of the continental United States.

Section 15 of the Federal farm loan act provides that where national farm-loan associations have not been formed and are not likely to be formed in any locality because of peculiar local conditions, the board may, in its discretion, authorize Federal land banks to make loans on farm lands through agents approved by the board. In accordance with this provision loans have been made in the past through a number of agents in the seventh Federal land-bank district. The policy, however, has been discontinued by the bank, and associations have been organized where necessary to take care of the needs in sections formerly served by agents. Two of the associations organized in 1930 are located in this district.



The policy of the Federal land banks with respect to loans is to grant all applications received which, in their judgment, meet the requirements of sound loans and which are eligible under the provisions of the Federal farm loan act, and the board is advised that the banks are encouraging applications of this character. In this connection, it may be desirable to review the loaning history of the banks to some extent in order that the decline in the volume of loans granted may be interpreted correctly. Except for the temporary recession during 1920-21, when the constitutionality of the law was being tested, the loaning operations of the Federal land banks expanded rapidly following their organization in 1917. By January 1, 1920, they had \$294,000,000 of loans on their books, which constituted 3.7 per cent of the estimated total farm-mortgage debt in the United States. Five years later this volume had reached \$988,000,000, or 9.9 per cent of the total debt, and by January 1, 1928, the latest date for which a Department of Agriculture estimate of the total debt is available, the volume of loans aggregated \$1,156,000,000, or 12.2 per cent of the total debt. The largest amount loaned in any single year was in 1922 and since then, with the exception of 1926 and 1927, there has been a decline in the annual volume placed on the books.

As pointed out in the annual reports of the Farm Loan Board, the trend of new loans made by the Federal land banks has paralleled closely the trend in the volume of applications received. Statistical tables published in these reports show that approximately 66 per cent of the proceeds of all loans which have been submitted by the Federal land banks for approval as collateral for bonds was used to pay existing mortgages and about 11 per cent was used to pay other debts, thus making a total of approximately 77 per cent which was used for refunding purposes. Similar proportions of the loans made by joint-stock land banks were used for the purpose of refinancing existing indebtedness. Refunding operations in any substantial volume obviously could not be continued indefinitely, particularly in view of the fact that only a portion of the total farm mortgage indebtedness of the country is eligible to become loans of Federal land banks.

The farm loan act imposes definite limitations on loans which these banks may make. In the first place, they are limited to loans to borrowers who are at the time, or shortly to become, engaged in the cultivation of the farm to be mortgaged. According to the latest available estimates of the Department of Agriculture, approximately 41 per cent of the total mortgage debt of the country is secured by farms which are not owner-operated and which presumably therefore would be ineligible as the basis of loans by Federal land banks. A part of the mortgage debt also represents junior liens, while the loans of the Federal land banks are limited to first mortgages. The banks, moreover, are restricted to loans of \$25,000 or less, and the law states that preference shall be given to loans of \$10,000 and under. Further limitations apply to the purposes for which the proceeds of the loans may be used, the proportion of the appraised value of the land and improvements that may be loaned, and the basis of determining appraised value. In view of the fact, therefore, that the amount of loans eligible is thus definitely limited by the safeguards prescribed in the law, and in view of the fact that ordinarily most of the loans are made for refunding purposes, a decline from the volume of the first years of operations was

inevitable. Furthermore, as no loans can be made in excess of 50 per cent of the appraised value of the land and 20 per cent of the appraised value of the permanent insured improvements at the time the loans are made, the dollar volume necessarily has been affected by the decline in farm-land values in recent years.

Data assembled by the Department of Agriculture show that the number of farms changing hands voluntarily has declined during the past five years, beginning with 29.6 per thousand in 1926 and decreasing thereafter to 23.5 per thousand in 1929 and 23.7 in 1930. In view of the relationship between real-estate transfers and the need for farm-mortgage financing, it is apparent that this reduction in real-estate sales activity has been a contributing factor in the decrease in applications received and loans closed. It may be pointed out also that many of the sales being made do not require special financing by an outside agency for the reason that involuntary holders, in disposing of the farms owned by them, frequently accept as a part of the consideration mortgages on the land sold.

Aside from the funds available from capital stock subscriptions, amortization, and other payments, the loaning operations of the Federal land banks are financed by the sale of bonds to the public. These bonds are exempt from Federal, State, local, and municipal taxation, but the Government has assumed no liability for the payment of either principal or interest. Each bank is primarily liable for its own bonds and, in addition, is jointly liable with the other Federal land banks, under the conditions stated in the law, for the principal of and interest on bonds issued by any of the other Federal land banks. The income of the banks is derived mainly from the difference between the rate of interest charged on loans and the rate of interest paid on the bonds, and, in accordance with the law, the current rate on new loans of each bank is limited to 1 per cent above the rate of interest borne by the last issue of its bonds.

The national farm loan associations are the principal stockholders of the Federal land banks, and on December 31, 1930, they owned 98.3 per cent of the capital stock of the banks, which on that date aggregated more than \$66,000,000. Individual borrowers through the Porto Rico branch of the Federal Land Bank of Baltimore owned 1.1 per cent, individual borrowers through agents, 0.2 per cent, and the Treasury of the United States 0.4 per cent. In accordance with the provisions of the law, the original stock subscribed by the Treasury has been retired gradually from the proceeds of subscriptions for stock by national farm loan associations, with the result that the Government now owns no stock in 10 of the banks and owns only small amounts in the Federal land banks of Springfield and Berkeley.

The national farm loan associations, in turn, are owned and controlled entirely by farmers who have obtained loans from Federal land banks and who have subscribed for stock of their associations, as required by law, in amounts equal to 5 per cent of their loans. Each association must indorse and become liable for the loans made to its members, and each borrower's stock is held by the association to protect it on its indorsement of the borrower's note. In addition, this stock carries the double-liability feature. In the circumstances, it is readily apparent that losses resulting from unsound loans ultimately must fall upon the stockholder-borrowers and that it is very definitely to their interest that not only their local association but the entire Federal land bank system follow sound loaning policies.

The associations, it may be added, are more and more realizing their responsibility, that the Federal land-bank system was designed by the Congress to be a permanent agency to function in good times and bad, and that, if it is to continue to serve in the manner intended, each unit must be maintained in a strong financial condition. Both the banks and the associations have observed in recent years the effects of loaning policies which resulted in difficulties and losses, and naturally in the conduct of their operations they are endeavoring to avoid the mistakes of the past.

It is interesting to note in this connection the statistics showing the amount of farm mortgages held by 52 life-insurance companies holding 91.8 per cent of the admitted assets of all legal reserve companies, which were published in the Proceedings of the Twenty-fourth Annual Convention of the Association of Life Insurance Presidents (December 11 and 12, 1930). These statistics indicate that the farm-mortgage loans of these companies declined from \$1,982,548,000 on December 31, 1927, to \$1,886,000,000 on December 31, 1930, or a decline of almost 5 per cent. On December 31, 1930, the outstanding loans of Federal land banks were approximately \$32,500,000, or 2.8 per cent greater than on December 31, 1927.

With respect to the volume of applications received and loans closed, it appears that in more than half of the districts there was a reversal in the trend during the last part of 1930. The total amount of applications received during the last three months of 1930, for example, was 37 per cent greater than the amount received in the corresponding period of 1929. This trend has been reflected also in the volume of loans closed. During the last three months of 1930, 3,230 loans were closed in an aggregate amount of \$12,741,700 which compares with 2,966 loans in an amount of \$10,420,700 closed during the last three months of 1929. The loans closed in December, 1930, were 46 per cent greater in total amount than those closed in December, 1929.

It can not be stated at this time, of course, whether this is a temporary development or whether the upward trend in applications will be continued for some time. In any event the banks report that they have ample funds to take care of adequately secured loans which meet the requirements of the law.

(5) A statement classifying the assets and liabilities of each Federal land bank separating real estate from personal property—

Exhibit A, attached, consisting of a pamphlet published quarterly by the Federal Farm Loan Board, includes on pages 5 to 8, inclusive, statements classifying the assets and liabilities of each Federal land bank, as of December 31, 1930. The consolidated statement of the 12 banks appears on page 4. It will be noted that in the assets, real estate owned is segregated from other assets and that, in addition, there appears in many statements the item, "Sheriffs' cts., judgments, etc. (subj. to redemp.)." In many States title may not be acquired following foreclosure until the borrower has had a stated period in which to pay the amounts in default and redeem his property. All lands held subject to redemption are indicated accordingly on the statements of condition attached.

(6) The total amount of delinquent installments in connection with outstanding loans of Federal land banks and the percentage of the total assets of the banks represented by such installments—

The statements of condition in Exhibit A likewise segregate the amount of delinquent installments in connection with outstanding loans of Federal land banks on December 31, 1930. As will be observed from the consolidated statement on page 4, the total amount of such installments on December 31, 1930, was \$8,199,658.62, against which there were partial payments and reserves of \$4,171,068.01, leaving a balance of \$4,028,590.61 included in assets, which represented three-tenths of 1 per cent of the total assets reflected in the statements of the banks.

(7) The total carrying value of real estate acquired outright and subject to redemption, by foreclosure and otherwise, on hand December 31, 1929, and December 31, 1930—

This information is included in the following table:

*Real estate owned outright and subject to redemption held by Federal land banks, December 31, 1929 and 1930*

[Compiled from reports to the Federal Farm Loan Board]

	Dec. 31, 1929	Dec. 31, 1930
Real estate owned outright:		
Carrying value.....	\$16,687,945	\$20,858,310
Less reserves for real estate.....	8,283,508	8,096,744
Net carrying value.....	8,404,436	12,761,566
Per cent of total assets.....	0.6	1.0
Sheriffs' certificates, judgments, etc. (subject to redemption):		
Carrying value.....	\$6,229,904	\$7,455,356
Less reserves.....		296,807
Net carrying value.....	6,229,904	7,158,549
Per cent of total assets.....	0.5	0.6

(8) Total number and amount of sales of acquired real estate made by Federal land banks during the calendar years 1929 and 1930—

This information is included in the following table:

*Sales of acquired real estate made by Federal land banks, 1929 and 1930 (net after cancellations)*

[Compiled from reports to the Federal Farm Loan Board]

	Number of sales	Consideration
1929.....	2,285	\$8,007,485.82
1930.....	2,736	8,308,103.58

(9) The number of joint-stock land banks and their status, how many have been liquidated or discontinued, how many are in process of liquidation, and how many in operation; a statement classifying the assets and liabilities of the banks still in existence in a manner similar to that for Federal land banks—

The information requested is included in Exhibit A, attached. As will be noted at the bottom of page 10 of this exhibit, a total of 83 joint-stock land banks has been chartered under the Federal farm loan act. Of this number 48 are still in operation, 1 is in voluntary liquidation, and 3 are in receivership. Statements classifying the assets and liabilities of the banks still in existence, in a manner similar to that for Federal land banks, appear in this exhibit on pages 12 to 36, inclusive.

Respectfully,

A. W. MELLON,  
Secretary of the Treasury,  
Chairman Federal Farm Loan Board.